IR+M INCOME RESEARCH + MANAGEMENT

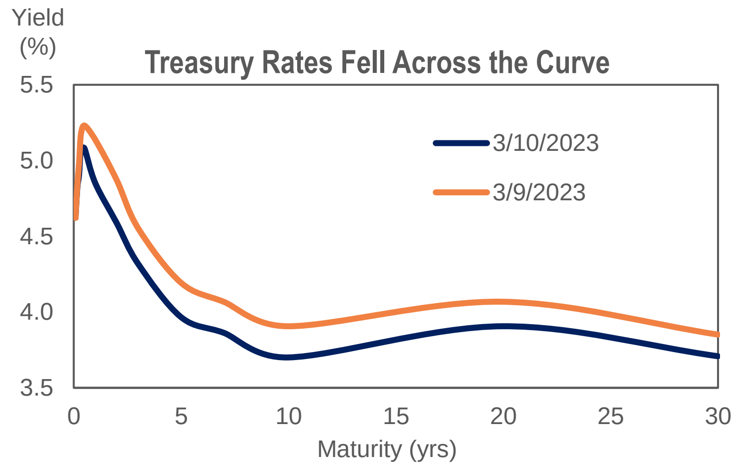
IR+M SPECIAL MARKET UPDATE
March 10, 2023

MARKET NEWS – SILICON VALLEY BANK

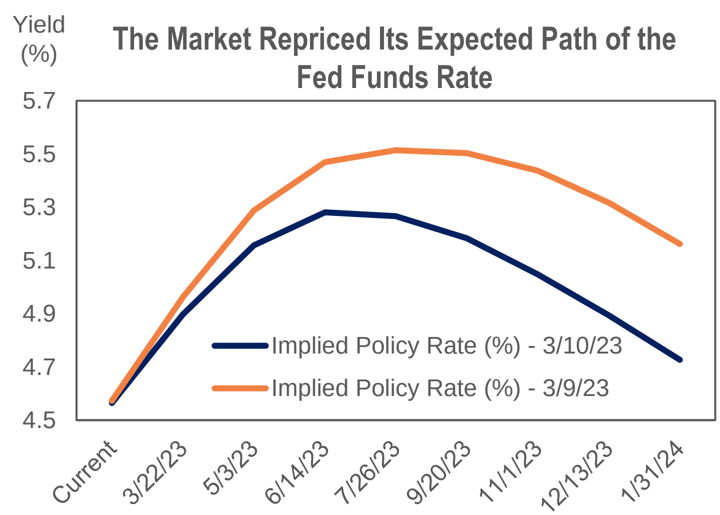
- On Friday, March 10, 2023, Silicon Valley Bank (SIVB), the nation's 16th largest bank, collapsed just days after executing emergency maneuvers in response to withdrawals and a sharp decline in its investment portfolio. It is the second-largest bank failure in US history after Washington Mutual's financial crisis demise in 2008.
- SIVB's parent company, SVB Financial Group, had been attempting to find a buyer after forgoing a planned share sale on Friday morning. The Federal Deposit Insurance Group (FDIC) immediately took control of the bank under the newly created Deposit Insurance National Bank of Santa Clara. SIVB's $175 billion in customer deposits are now held at this new entity.
- SIVB's failure may be attributed to rising interest rates and the increasing cash needs of its concentrated customer base, which was largely comprised of technology start-ups. SIVB had been losing deposits at an accelerated rate versus that of its US banking peers.
- Financial contagion fears spread throughout the banking sector, prompting Treasury Secretary Janet Yellen to publicly reassure investors that the banking system was intact.
- At IR+M, we believe that SIVB's collapse underscores the importance of robust credit research, which helps investors navigate market turmoil and avoid weaker issuers. With the exception of a very small inherited position, IR+M has never owned SIVB.

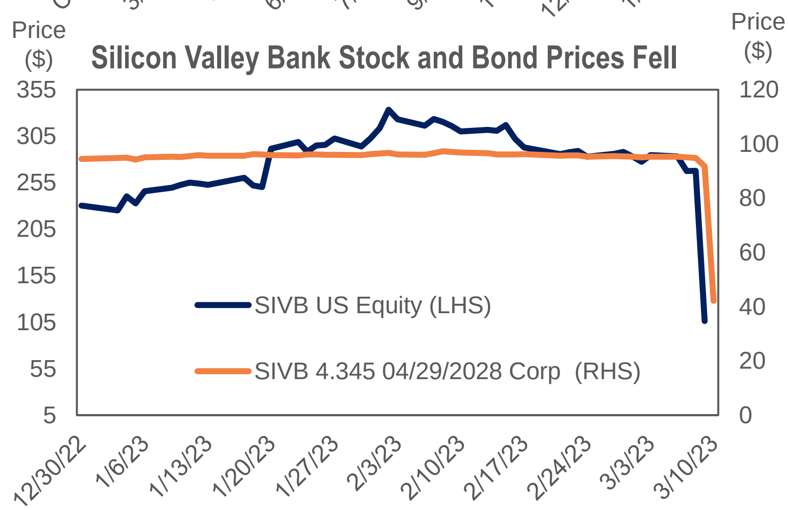
MARKET REACTION

- Markets were pressured today, with domestic equity indices decreasing by over 1%, as news spread of the potential issues at SIVB; eventually it was announced regulators closed the bank.
- Interest rates were lower across the curve today as investors favored safe-haven assets. Rate moves over the past two days have largely unwound the Federal Reserve's (Fed) recent work of leading investors away from the hopes of a monetary policy pivot.
- Investors reassessed the likely path of the fed funds rate given the fear of broader contagion.
  - The expected terminal fed funds rate moved lower day-over-day from 5.52% in July 2023 to 5.28% in June 2023.
- Although some market weakness was felt across credit markets, it was largely limited; investment-grade and high-yield corporate spreads were roughly 5-10bps and 20-25bps wider on the day, respectively.



Maturity	2-year	5-year	10-year	20-year	30-year
3/10/2023	4.59	3.97	3.70	3.91	3.71
DoD Change	-0.28	-0.23	-0.21	-0.16	-0.14





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